

# *Massachusetts State Lottery Commission*

60 Columbian Street  
Braintree, Massachusetts 02184-1738  
Tel: (781) 849-5555  
Fax: (781) 849-5546  
TTY: (781) 849-5678

DATE: Tuesday, October 25, 2016

TIME: 10:30 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General  
Meghan Liddy, Commissioner  
Anthony Salvidio, Esquire, Commissioner  
Jeffrey Shapiro, Esquire, Deputy Comptroller, Chief Operating Officer,  
designee of Commissioner Thomas Shack, III  
Shannon Sullivan, Assistant General Counsel, Executive Office of Public  
Safety and Security, designee of Commissioner Daniel Bennett

ALSO PRESENT: Michael Sweeney, Executive Director, Lottery  
Edward Farley, Chief Administrative Officer, Lottery  
Carol-Ann Fraser, General Counsel, Lottery  
Paul Mandeville, Assistant Executive Director, MIS, Lottery  
Christian Teja, Director of Communications, Lottery  
Judy Moore, Executive Assistant, Lottery

Chandra Allard, Communications Director, Treasury  
Dave Falcone, Chief of Staff, Treasury  
Sarah Kim, General Counsel, Treasury  
James MacDonald, First Deputy Treasurer, Treasury  
Steve Moore, Deputy Legislative Director, Treasury  
Sue Perez, Assistant Treasurer Debt Management, Treasury

Ashley Campbell, Connelly Partners  
Emma Roehlke, Connelly Partners

John F. Bradley II, Partner, Prince Lobel  
Peter J. Caruso II, Partner, Prince Lobel  
Lawrence P. Mayo, Esquire  
Michael Demakos, Account Coordinator, O'Neill and Associates  
Ryan C. Kearney, General Counsel, Retailers Association of  
Massachusetts  
Prasanna Rajasekaran, Research Assistant, Pioneer Institute  
Robert Frasca, interested member of the public

**I. Opening of the Meeting:**

Treasurer Goldberg opened the meeting at 10:34 a.m.

**II. Approval of Minutes from September 27, 2016**

Treasurer Goldberg asked the Commission to accept the minutes of the meeting of September 27, 2016. Commissioner Liddy moved to accept the minutes of the meeting, and Commissioner Salvidio seconded the motion. The minutes were approved at 10:35 a.m.

**III. Votes Presented to the Commission**

**VOTE (1):** Treasurer Goldberg asked for a motion to authorize the Executive Director to execute a contract for MSLC's Gaming System Software and Hardware with the following firm:

**IGT Global Solutions Corporation (f.k.a. GTECH CORPORATION)  
10 Memorial Blvd  
Providence, RI 02093**

The contract shall be for an initial term of five years. The MSLC shall have the option to extend the term of the contract for two consecutive one year periods.

The maximum obligation assumed hereunder shall not exceed the amount of eighteen million dollars (\$18,000,000.00).

Commissioner Salvidio made the motion to enter into the contract and Deputy Comptroller Shapiro seconded the motion.

Executive Director Sweeney introduced the vote by reminding the Commission that, back in January, the Commission authorized him, to enter into contract negotiations with IGT. IGT was the successful bidder on the RFR that had been published in 2015 for a new gaming system. The Lottery assembled an internal team with technical staff, led by Assistant Executive Director, MIS, Paul Mandeville, as well as General Counsel, Carol-Ann Fraser. The Lottery also retained outside counsel to help with the particulars of the contract. Executive Director Sweeney described the vote as involving a highly complex, technical contract, dealing with what will be the first technological overhaul to the Lottery gaming system in over fifteen or twenty years. Presumably, the Lottery will be utilizing the gaming system for at least twelve to twenty years, after it has been built and activated. The negotiation process on the Lottery's end has come to a successful conclusion, and the Lottery is seeking a vote to enter into an agreement, which is five years in length, with two, one year extension options. Executive Director Sweeney explained that the Lottery participated in lengthy negotiations on important items, such as source coding and object coding, and, Lottery IT feels that the Lottery secured its rights. Executive Director Sweeney further stated there is some intellectual property, proprietary to IGT, and that details and terms have been worked out between the legal counsel representing the parties. The Lottery has implemented a fifteen percent retainage within each subsequent statement of work that will be executed over the length of the contract. The Lottery has been assured that there will be testing on all of the components and software

as its being installed and implemented. The Lottery also has provisions to ensure that IGT complies with all current and future updated privacy laws put into effect by either the Commonwealth, or by the federal government, as well as any technical data recovery requirements. The Lottery also has provisions for business resumption and disaster recovery. IGT is required to meet all Commonwealth IT policies and procedures. Additionally, the Lottery secured a letter from the president of IGT, locking in the original pricing of the contract. Executive Director Sweeney informed the Commission that Sue Perez, who heads the bonding department at the Treasury, was in attendance to answer any questions regarding the bonding. General Counsel of the Lottery, all outside legal counsel and Assistant Executive Director Paul Mandeville, the head of the Lottery's IT department, were all present to answer questions. Executive Director Sweeney informed the Commission that Paul Mandeville was at Lottery when the original system was implemented and he will be seeing this project through to completion. Executive Director Sweeney then opened the conversation up to questions. Commissioner Salvidio asked about the timeframe of the project. Assistant Executive Director Paul Mandeville explained that the entire process would require additional RFRs. The gaming system RFR is the first major one. The timeframe from beginning to end for replacing the terminals and the host data center would be about a year and a half to two years. He explained that terminals will be rolled out slowly, with noticeable changes visible within six to eight months, and the completion at about a year and a half to two years from the start date. Commissioner Salvidio also asked if the new technology being purchased has already been in existence and tested throughout other lotteries. Assistant Executive Director Mandeville explained that the RFR required that the technology exist in two other lotteries. Treasurer Goldberg asked if it would be possible to accelerate the year and a half to two year timeframe, if the initial six to eight month introduction launches smoothly. Assistant Executive Director Mandeville replied that it is possible but he did not want to offer unrealistic expectations. In regards to the capital investment plan, Commissioner Liddy asked if the expanse of the entire project is covered in the \$42 million. Executive Director Sweeney explained that this vote is for approximately eighteen million dollars and the subsequent rollout would be for the rest and would be applied towards the equipment, including terminals and screens, for retail agent locations. The Lottery is confident, and has no reason at this time to believe that the \$42 million allocated will not be enough to cover the entirety of this program. Executive Director Sweeney stated that the Lottery feels that those numbers are solid and hoping to possibly see some cost savings. Commissioner Liddy also inquired about the bonding issuance, and Assistant Treasurer for Debt Management, Sue Perez, explained that it's essential to have capital spend plans in order to find the right balance as to when to go out to the market. She added that she hopes to have good capital spending plans as soon as next month and will meet with the bond attorneys to determine if the bonds will be tax exempt or not. Deputy Comptroller and Chief Operating Officer, Jeffrey Shapiro, questioned data security and data breaches. Assistant Executive Director Mandeville explained that the integrity of the system, and the security of the data, are among the most important issues to the Lottery. He explained that Lottery systems are divided into three main areas: the host, data communications and agent location hardware. The data communication piece has been completed and is managed by Verizon. The Lottery has VPNs built in so that every agent can communicate with the Lottery on a wireless connection through a private digital network. The messages are encrypted at the data communication and application levels. Assistant Executive Director Mandeville felt confident that the security of the Lottery is well protected. He concluded that security is constantly being monitored manually, and by automation, twenty-four hours a day.

Treasurer Goldberg concluded the discussion by saying that this is an exciting vote that is critical to the next major step in modernizing the system and will serve the public in a much more fluid fashion. She stated that this has been a long and hard negotiation and the team at the Lottery did an excellent job on behalf of the Commonwealth by working with the vendor to ensure the best possible deal, which contained many complicated and time intensive issues.

Treasurer Goldberg, recognizing there was no further discussion, moved the motion to a vote. For the reasons stated above and in the meeting materials, the Commission voted unanimously in favor of the motion. The Motion carried.

#### **IV. Executive Director's Report**

##### **a. Sales Update**

##### **b. Marketing Update**

Executive Director Sweeney reviewed Lottery sales for September, announcing overall sales for September of 2016 were down \$15.0 million over September 2015. Net profit for the month was \$69.7 million, compared to \$73.4 million in September 2015, a decrease of \$3.7 million. The prize payout for September 2016 was 73.75 percent, as compared to 73.30 percent in September 2015. Executive Director Sweeney explained that, due in part to the absence of last fiscal year's accrual related to the \$20 million end of game Mega Cash prize, the year-to-date prize payout for the first three months of FY17 is 72.26 percent, as compared to 75.23 percent for the first three months of FY16.

Executive Director Sweeney explained that, due to the lower prize payout and a shift in calendar, resulting in five additional days being included in the net profit figure for the first three months of FY17, the year-to-date net profit for the first three months of FY17 is \$264.8 million, compared to \$214.3 million for the first three months of FY16. After subtracting a five day average net profit figure of \$14.2 million, the adjusted year-over-year change for the first three months of FY17 versus the first three months of FY16 is a \$36.3 million increase in net profit.

Executive Director Sweeney reported that KENO and Mass Cash experienced sales increases in September of 2016 over September of last year. KENO sales were up over \$1.2 million, and Mass Cash sales were up \$127,407. The Lottery's new ALL OR NOTHING monitor game, which was launched on July 18th, replacing Jackpot Poker, had sales totaling over \$1.8 million for the month.

Instant Ticket sales were down \$11.4 million in September of 2016, as compared to September of 2015. Powerball sales for September of 2016 were down \$6.1 million and Executive Director Sweeney reminded the Commission that the jackpot last September reached \$310.5 million. Mega Millions sales were down \$224,345, Lucky for Life sales were down \$177,414, Megabucks Doubler sales were down \$80,097 and Numbers Game sales were down \$19,691. Commissioner Salvidio asked if ALL OR NOTHING was taking sales away from KENO. Executive Director Sweeney explained that early on, the Lottery experienced a marginal take away from KENO, but the advance in ALL OR NOTHING was still a magnitude greater to more than cover the dip initially seen in KENO during July and August.

The amount of dollars earned monthly from ALL OR NOTHING, are still 300 percent to 400 percent higher than the highest figures seen three years ago from Jackpot Poker. Executive Director Sweeney described ALL OR NOTHING as an outstanding success.

Executive Director Sweeney followed up by providing additional details on each game across the Lottery's portfolio for the month. He reported that Instant Ticket sales are strongly tracking last year as well as the previous year. ALL OR NOTHING experienced outstanding numbers in September, and, as expected, sales have started to pull back. He stated it will be interesting to see where it will level off, and thought that in December or January sales will be a good predictor of where the game may end up for the immediate future and through the fiscal year. He reported that the Numbers Game and Mass Cash have seen remarkably consistent sales over the last three years, and Megabucks Doubler Game was down slightly for the month compared to last year.

Executive Director Sweeney reported that all game monthly sales, compared to the last two prior fiscal years were right about the same and greatly influenced by Powerball jackpots. Monthly net profit, although not as robust as the first two months of the fiscal year, was still within the target range with almost \$70 million in sales.

#### Five Year Comparison Chart

Executive Director Sweeney went on to discuss the five year comparison chart, which is a key chart showing the highest payout as a percentage of the Lottery's sales from the last five years. He reported in the August meeting that he expected the percentage to increase, as it has to 72.3% through the end of September. He told the Commission that he expected that number to further increase towards the 73% payout.

#### Gross Sales Results

Referring to the Gross Sales Results chart, September FY17 vs. FY16 Unadjusted Non-Fiscal Year, Executive Director Sweeney reported that Instant Tickets sales were down -4.2%, Powerball, which is jackpot driven, was down -48.7%. KENO sales were up and ALL OR NOTHING brought in a new revenue source with \$1.8 million in sales. Overall, total gross sales were down -3.9% for the month of September FY17 vs. September FY16. Executive Director Sweeney stated the Gross Sales Results chart Year-to-Date FY17 vs. FY16 Unadjusted Non Fiscal Year were down, -0.2% with Instant Ticket sales down -3.1%, the expected range for this time period. Mega Millions and Powerball were up a healthy amount due to the strong jackpot increases seen during July and into August.

#### Advertising Campaign Comparison

Executive Director Sweeney introduced an advertising campaign comparison chart which was divided into three sections: FY16 Campaigns, FY17 Removal Due to Budget Cuts and FY17 Confirmed Campaigns. Executive Director Sweeney thought it would be a good graphic to share visually with the Commission when he saw it being discussed internally with Chief Administrative Officer, Ed Farley, the Lottery marketing team, and the budget and finance team. The chart highlights the many ad campaigns that were featured last fiscal year, as well as the promotions that needed to be removed due to budget cuts from this year's advertisement and media campaigns. He explained that the remaining campaigns were either kept intact or reduced at some level. Although he described the chart as simplistic, he wanted to point out the amount of very deep damage the targeted budget cuts for advertisement has done to the Lottery's ability to communicate with the consumer.

### First Quarter Sales, FY2013 – FY2017

In order to keep things in perspective, Executive Director Sweeney added a new chart, stating that it's unrealistic to predict that every year will be a home run record setting year for Lottery sales. Although this year the Lottery still remains on course, he wanted the Commission to examine first quarter sales from FY13 through the first quarter in FY17. He stated that, historically, all of these years were good years for the Lottery, bringing in a lot of gross revenue and a significant profit for the 351 Massachusetts cities and towns. He pointed out, comparatively, over the last five years the numbers are healthy and strong, but as discussed in previous meetings, there is the need for innovation and for an additional market outreach. He stated that the need to keep current with technology and how the public is engaging in commerce, continues to show itself not only at the Massachusetts level, but with every lottery across the country. These numbers are not inflation adjusted and when you start to factor in inflation, the flatness of lottery numbers make themselves evident.

### Instant Tickets

Executive Director Sweeney continued the discussion by providing a sales update on the September Instant Tickets, which were released on September 20<sup>th</sup>. He reported the \$1.00 Loose Change has been popular with consumers and tested well. He is expecting the \$20.00 ticket, \$10,000,000 Gold, to continue to do well and said the initial sales over the last five weeks have been steady with last year's numbers. Chief Administrative Officer Ed Farley informed the Commission that, in FY16, Loose Change sold out and was the only \$1.00 ticket to sell out at that price point.

As part of the discussion around Instant Tickets, Executive Director Sweeney delivered a preview of the Holiday Instant Tickets which will be released on November 1<sup>st</sup>. He handed out samples of the \$1.00, \$2.00, \$5.00 and \$10.00 tickets and informed the Commission that this is one of the bulk campaigns for the season with a theme this year centered around Holiday Magic. Point of Sale (P.O.S.) material has already begun to be distributed to the retail agents, and the regional managers have reported that they have had excellent feedback from the agents. Executive Director Sweeney regarded this as a good early sign.

### Social Media Messaging

Executive Director Sweeney informed the Commission that the Lottery will be offering a Halloween Social Media Promotion on Facebook, Instagram, and Twitter from October 21<sup>st</sup> through October 28<sup>th</sup>. Entrants must comment, post or tweet as instructed to be eligible to win a one-year Megabucks Doubler Season Ticket. Chief Administrative Officer Ed Farley, added that the graphic design on this promotion was done entirely in-house by Lottery Graphic Designer, Cagen Luce, and stated that Cagen did an excellent job. Executive Director Sweeney added that the Lottery is trying to promote more internal work in design, and in using social media. He stated that the Lottery feels social media has a huge presence in everyone's lives and our ability to engage it is critical. He added there is an audience eager and readily available, and that social media is an excellent way to promote Lottery products at a low dollar cost. Executive Director Sweeney continued by showing examples of recent and upcoming strategies that have been rolled out on Instagram, Twitter and Facebook, and reported that there has been good consumer feedback. Director Sweeney also spoke about the success of the efforts made by the Lottery through the use of social media to inform consumers of the Lottery's healthy relationship with the Mass Council of Compulsive Gambling. The Lottery

and the Mass Council of Compulsive Gambling are currently working together on items for the upcoming holiday season.

Connelly Partners

Executive Director Sweeney continued the meeting by introducing members from Connelly Partners, LLC. Brand Manager, Ashley Campbell, and Brand Supervisor, Emma Roehlke, updated the Commission with a presentation around the FY17 Holiday Campaign. They informed the Commission that this is Connelly Partners' fifth year in executing the Holiday Campaign for the Lottery. The promotion will begin the week of Thanksgiving, on November 21<sup>st</sup> and run through to Christmas Eve. She explained that the campaign will include TV & Radio Broadcasts and outdoor components, such as billboards, mall displays, and bus kings. The campaign will also include a lot of digital pieces, including digital video and online displays, as well as utilizing social media. The total budget for the FY17 Holiday Campaign is \$1,800,000. Executive Director Sweeney thanked Ashley and Emma for their presentation.

**V. Other matters related to the purchase of goods and services by the Lottery**

After asking if there was any other business to discuss, Treasurer Goldberg sought a motion to adjourn the meeting. Commissioner Salvidio moved to adjourn and Deputy Comptroller Shapiro seconded the motion. The motion carried unanimously. The meeting adjourned at 11:23 a.m.